TEACHERS' RETIREMENT ALLOWANCES FUND BOARD

1989

ANNUAL REPORT

91-01453/

Manitoba

Teachers' Retirement
Allowances Fund Board

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June 22, 1990

The Honourable Len Derkach,
Minister of Education and Training,
Room 168, Legislative Building,
Winnipeg, Manitoba,
R3C 0V8.

Dear Mister Derkach:

In accordance with subsection 51(3) of The Teachers' Pensions Act, we are pleased to report on our administration of the Teachers' Retirement Allowances Fund for the year ended December 31, 1989. Appended to and forming part of this report are the following:

1. Statement of "Comparative Statistics" of significant aspects of the Fund covering the period from inception in 1925 to the end of 1989.

2. Report of the Provincial Auditor on his examination of the accounts of the Fund for the year ended December 31, 1989, as required by Clause 51(3)(a) of the Act.

3. Financial Statements in respect of the year ended December 31, 1989, as follows:

Exhibit A - Balance Sheet as at December 31, 1989

Exhibit B - Statement of Changes in Benefit Reserves for the year ended December 31, 1989

Exhibit C - Statement of Money Purchase Account for the year ended December 31, 1989

Schedule 1 - Summary of Investments as at December 31, 1989

Schedule 2 - Summary of Investment Income for the year ended December 31, 1989

Notes to the Financial Statements for the year ended December 31, 1989.

INVESTMENTS

Under the Act, investments are made as directed by the Investment Committee, composed of the Chairman and a "teacher" member of the Board and the Deputy Minister of Finance for the Province. The Committee held 7 formal meetings during 1989 and the results of its decisions are portrayed in the following paragraphs. There was a net increase in the amount invested in every asset class except cash. The percentage of total investments representing longer term fixed income securities increased by 2.9% to 62.0%, and non-fixed income investments increased by .9% to 22.3%. The increases in both of these asset classes were offset by a decrease in short term investments of 3.8%.

During 1989, invested assets increased by more than $75,000,000. This amount along with over $15,000,000. of funds received from securities sold or matured was invested as follows:

	% of Total	Cost (thousand $)	Average Yield %
Bonds - Governments	6.6	$ 5,980,	11.19
- Canadian Corporations	17.4	15,823,	10.43
Total Bonds	24.0	21,803,	10.64
Mortgages - Insured, NHA (regular)	33.7	30,637,	11.13
- Insured, NHA (index linked)	25.8	23,371,	5.04 + CPI
Total Mortgages	59.5	54,008,	
Total Fixed Income	83.5	75,811,	
Equity Investments			
Real Estate	18.2	16,508,	*
Direct Natural Resources	6.9	6,282,	*
Venture Capital	2.9	2,656,	*
Total Equity	28.0	25,446,	
Total Longer Term Investment	111.5	$101,257,	
Short Term Investment	(11.5)	(10,455,)	
Total New Investment	100.0	$ 90,802,	

*** Rates of return to be achieved on these 3 asset classes cannot be predetermined as they are obtained through future rentals, product sales, dividends, interest payments, and net capital gains at time of sale. Over the longer term, investments of these types have historically yielded greater returns than fixed income investments.**

As investments in real estate, mortgages, venture capital and direct acquisition of natural resource assets require advance commitment of funds which are paid out during or on completion of construction or as required to fund venture capital or natural resource acquisitions, over $50,000,000. of unfunded commitments were in place at the end of the year, as follows:

	Amount (thousand $)	Average Yield
Mortgages:		
- Insured, NHA - regular	$ 32,573,	11.13%
- Insured, NHA - index linked	2,178,	5.00% + CPI
Real Estate Equity	5,344,	
Direct Natural Resources	7,959,	
Venture Capital	2,301,	
Total Commitments	$ 50,355,	

The rate of return on average net assets of the Fund increased in 1989 to 11.45% from 10.00% in the preceding year.

PENSIONS

During the year there was a net increase of 215 in the number of people receiving retirement income and other monthly benefits. The following is a summary analysis of the number of persons receiving different types of retirement income benefits at December 31, 1989:

Regular service pensions -	
to retired teachers	3,833
to dependants or estates of deceased retired teachers	133
Disability pensions -	
to retired disabled teachers	100
to dependants or estates of deceased retired disabled teachers	6
Death benefits - to surviving spouses or children of deceased teachers	82

Special annuities -	
to former teachers of retirement age not entitled to regular pensions	237
	4,391

ACTUARIAL VALUATION

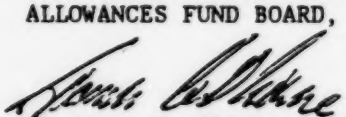
As required by subsection 45(4) of the Act, an actuarial appraisal of the Fund is made every 3 years. The most recent appraisal as at January 1, 1987, disclosed an actuarial surplus of $29,412,601. As a result, we are pleased to report that the Actuary has certified that "the assets of Account A, together with the contributions expected to be received from and on behalf of the teachers who are participating in the Fund, are sufficient to provide the benefits promised by the Act as they fall due".

BOARD MEMBERSHIP

During the year, Ms. Anne Monk, Ms. Stephanie Shumilak, Mr. Lorne Ross and Mr. George Strang were reappointed members of the Board. We wish to record our appreciation for the continuing contribution of these members to the administration of the Fund.

Respectfully submitted:

THE TEACHERS' RETIREMENT
ALLOWANCES FUND BOARD,



BY James G. Oborne, Chairman,

Members:

(1) George Strang, Vice Chairman
(1) David Lerner
(1) Anne Monk
Lorne Ross
(2) Stephanie Shumilak
(2) Ray Whiteway

(1) Nominated by The Manitoba Teachers' Society
(2) Nominated by The Manitoba Association of School Trustees

TEACHERS' RETIREMENT ALLOWANCES FUND BOARD
COMPARATIVE STATISTICS
1925 - 1989

Year Ended June 30	Net Assets	Income From Investments		Number of Teachers Contributing	CONTRIBUTIONS			Admin. Expenses	Refunds	Pensions			
			Approx. Rate of Return %		Teachers	Province of Manitoba	School Districts			Cost	Being Paid at end of period	Added during period	Deleted during period
	($ 000)	($ 000)			($ 000)	($ 000)	($ 000)	($ 000)	($ 000)	($ 000)			
1925-1948	1,866,	628,	4.00		1,761,	248,	--	33,	279,	464,	109	192	83
1949-1965	28,084,	7,973,	3.25-5.00	9,000	17,806,	4,287,	4,683,	342,	3,771,	8,759,	960	1,207	356
1966.....	30,387,	1,427,	5.00	9,400	2,962,	538,	287,	39,	803,	2,072,	1,032	102	30
1967.....	33,746,	1,574,	5.15	9,750	2,972,	1,017,	11,	44,	859,	2,251,	1,084	88	36
1968.....	36,839,	1,735,	5.35	10,650	3,655,	1,227,	20,	57,	904,	2,594,	1,155	120	49
1969.....	40,627,	2,008,	5.50	11,150	4,332,	1,394,	12,	56,	990,	2,906,	1,253	138	40
1970.....	44,828,	2,320,	5.60	11,650	4,710,	1,578,	13,	64,	1,116,	3,261,	1,357	143	39
6 mos. ended Dec. 31, 1970	46,311,	1,369,	6.00	11,750	1,806,	1,280,	5,	31,	649,	2,310,	1,458	124	23
year ended Dec. 31,													
1971.....	52,119,	3,125,	6.19	12,100	5,620,	3,123,	16,	90,	1,048,	4,955,	1,606	195	47
1972.....	60,249,	3,977,	6.40	12,000	6,281,	3,841,	10,	114,	1,244,	5,670,	1,737	182	51
1973.....	68,188,	3,996,	6.53	12,200	6,982,	6,100,	9,	123,	1,186,	7,076,	1,980	293	50
1974.....	77,256,	3,078,	4.43	12,300	7,862,	8,755,	8,	136,	1,449,	8,957,	2,176	244	48
1975.....	89,277,	7,008,	8.94	12,400	9,316,	7,538,	6,	168,	1,385,	10,661,	2,289	171	58
1976.....	101,988,	8,090,	8.91	12,500	10,656,	8,519,	5,	215,	1,471,	12,388,	2,416	175	48
1977.....	117,140,	9,260,	8.91	12,600	12,348,	9,322,	5,	290,	1,449,	14,018,	2,524	161	53
1978.....	137,127,	12,007,	9.91	12,716	14,538,	9,985,	11,	261,	1,499,	15,489,	2,649	187	62
1979.....	159,066,	14,917,	10.60	12,533	16,292,	10,859,	4,	292,	1,817,	17,212,	2,789	196	56
1980.....	184,458,	17,181,	10.53	12,471	18,065,	11,848,	5,	358,	2,174,	19,050,	2,935	218	72
1981.....	222,755,	22,877,	14.02	12,805	25,985,	12,617,	--	404,	2,191,	20,867,	3,007	143	71
1982.....	272,360,	27,991,	11.96	12,907	26,293,	13,912,	--	493,	2,210,	23,054,	3,117	194	84
1983.....	316,200,	29,139,	10.45	12,915	27,557,	15,183,	--	549,	2,027,	25,519,	3,239	197	75
1984.....	360,060,	28,579,	8.86	13,111	29,580,	16,453,	--	660,	1,980,	28,522,	3,355	213	97
1985.....	414,458,	39,506,	10.85	13,287	31,214,	18,184,	--	709,	1,914,	32,092,	3,542	260	73
1986.....	475,214	46,935,	11.25	13,763	32,890,	20,423,	--	823,	1,744,	36,771,	3,733	291	100
1987.....	534,874	47,682,	9.90	14,115	33,667,	22,496,	--	961,	2,013,	41,885,	3,970	330	93
1988.....	600,908	54,978,	10.00	14,258	34,966,	25,523,	--	1,198,	3,133,	47,043,	4,176	303	97
1989.....	678,450,	68,367,	11.45	14,133	36,795,	28,042,	--	1,182,	2,767,	52,057,	4,391	306	91

Manitoba

THE TEACHERS' RETIREMENT ALLOWANCES FUND

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the financial statements, being Exhibits A, B and C and Schedules 1 and 2, of The Teachers' Retirement Allowances Fund for the fiscal year ended December 31, 1989. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1989 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements applied, after giving retroactive effect to the change in accounting for appraised values on real estate equity investments as described in note 6 to the financial statements, on a basis consistent with that of the preceding year.

C A Bellringer

C. A. Bellringer, CA
Assistant Provincial Auditor

May 15, 1990
Winnipeg, Manitoba

AG-14021

Exhibit A

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Balance Sheet
as at December 31, 1989
(with 1988 figures for comparison)

A S S E T S

	1989	1988
	(thousands of dollars)	
Cash in bank	$ 357	$ --
Investments, Schedule 1	664,082	588,473
Unamortized net adjustment to book value of securities sold before maturity	20	34
Accrued interest on investments	7,072	6,202
Investment income receivable	2,751	2,258
Teachers' contributions receivable from school divisions	2,814	2,908
Receivable from Government of the Province of Manitoba	1,098	937
Computer and office equipment, at cost less accumulated amortization of $95 (1988 - $156) Note 2(F)	256	96
	$678,450	$600,908

L I A B I L I T I E S

Bank overdraft	$ --	$ 134
Accounts payable	626	496
Money Purchase Account, Note 4, Exhibit C	100	65
Provision for Fund's share of employees' pension benefits, Note 2(E)	774	680
	1,500	1,375
Benefit Reserves, Exhibit B:		
Reserves for teachers' share of benefits:		
Basic	620,844	549,185
Pension indexing adjustments, Note 2(C)	54,051	48,537
Reserves for employers' share of benefits:		
Manitoba Teachers' Society	1,892	1,663
Manitoba Association of School Trustees	163	148
	676,950	599,533
	$678,450	$600,908

Exhibit B

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Statement of Changes in Benefit Reserves
for the year ended December 31, 1989
(with 1988 figures for comparison)

	1989					1988
						(thousands of dollars)
	Reserve for Teachers' Share of Benefits		Reserve for Employers' Share of Benefits			
	Basic	Pension Indexing Adjustments	Manitoba Teachers' Society	Manitoba Association of School Trustees	Total	Total
Additions:						
Contributions:						
Teachers	$ 30,800	$ 5,995	$ --	$ --	$ 36,795	$ 34,966
Province of Manitoba:						
Share of benefits charged	26,317	--	--	--	26,317	23,790
Re: Actuarial liability created by 1970 and 1973 amendments	1,613	--	--	--	1,613	1,613
Prior rural service of certain Winnipeg teachers	112	--	--	--	112	120
Manitoba Teachers' Society	--	--	86	--	86	75
Manitoba Association of School Trustees	--	--	--	13	13	3
Other: Transfers under reciprocal agreements	2,103	--	--	--	2,103	1,802
Transfer from Money Purchase Account, Exhibit C	--	--	--	--	--	106
Total contributions	60,945	5,995	86	13	67,039	62,475
Investment Income, Schedule 2, Note 2	62,737	5,421	192	17	68,367	54,978
Total additions	123,682	11,416	278	30	135,406	117,453
Deductions:						
Pensions paid	46,091	5,902	49	15	52,057	47,043
Refunds	2,767	--	--	--	2,767	3,133
Transfers under reciprocal agreements	1,983	--	--	--	1,983	1,556
Administrative expenses	1,182	--	--	--	1,182	1,198
Total deductions	52,023	5,902	49	15	57,989	52,930
Net increase for year	71,659	5,514	229	15	77,417	64,523
Balance at beginning of year as previously reported	548,448	48,537	1,663	148	598,796	534,273
Adjustment of real estate appraisal surplus (Note 6)	737	--	--	--	737	737
As restated	549,185	48,537	1,663	148	599,533	535,010
Balance at end of year, Exhibit A	**$620,844**	**$54,051**	**$1,892**	**$163**	**$676,950**	**$599,533**

Exhibit C

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Statement of Money Purchase Account for the year ended December 31, 1989 (with 1988 figures for comparison)

	1989	1988
	(thousands of dollars)	
Additions:		
Deposits	$ 26	$139
Allocation of interest income net of administration fee	9	3
	35	142
Deductions:		
Transfer to basic reserve upon election of annuity, Exhibit B	--	106
Increase for the year	35	36
Balance at beginning of year	65	29
Balance at end of year, Exhibit A	$ 100	$ 65

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments as at December 31, 1989 (with 1988 figures for comparison)

	1989		1988
	(thousands of dollars)		
	Par Value	Book Value	Book Value
Fixed income longer term investments, Note 2(B)(i):			
Bonds and other debt instruments issued by, or guaranteed by, the following:			
Canada	$ 99,446	$ 71,433	$ 63,411
Province of Alberta	50	50	65
Province of British Columbia	3,323	1,672	1,554
Province of Manitoba	22,478	22,457	22,556
Province of New Brunswick	815	813	863
Province of Newfoundland	975	971	995
Province of Nova Scotia	220	219	219
Province of Ontario	16,923	12,982	10,317
Province of Prince Edward Island	690	683	683
Province of Quebec	300	300	450
Province of Saskatchewan	650	649	648
Hospital districts	5,998	5,994	6,167
Municipal corporations	9,526	9,514	9,981
Corporations	90,449	88,908	76,908
	251,843	216,645	194,817
Mortgages:			
Insured:			
National Housing Act (Canada)-regular	129,280	128,963	103,564
National Housing Act (Canada)-index linked	52,925	52,925	29,374
Other	2,432	2,432	3,862
Uninsured	14,316	14,305	18,666
	198,953	198,625	155,466
Total fixed income longer term investments at amortized cost		415,270	350,283
Less: Provision for capital losses		3,947	3,144
Net fixed income longer term investments, carried forward		$411,323	$347,139

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments
as at December 31, 1989
(with 1988 figures for comparison)

	1989	1988
	(thousands of dollars)	
	Book Value	Book Value
Brought forward	$411,323	$347,139
Non-fixed income investments, Note 2(B)(ii):		
Real estate equity investments:		
Common shares	35,515	26,493
Participating bonds	70,702	54,939
Qualifying shares	60	60
Total real estate equity investments, at appraised values	106,277	81,492
Less: Provision for valuation declines	12,387	7,173
Net real estate equity investments	93,890	74,319
Direct natural resource investments:		
Shares and notes, at cost plus interest in retained earnings	29,399	25,197
Investment in subsidiary, Note 3	--	1
Total direct natural resource investments	29,399	25,198
Venture capital equity investments, at appraised values	24,534	22,265
Less: Provision for valuation declines	1,016	403
Net venture capital equity investments	23,518	21,862
Real estate acquired through mortgage defaults	1,482	5,030
Total non-fixed income investments	148,289	126,409
Short term notes, at cost	104,470	114,925
Total Investments, Exhibit A	$664,082	$588,473

Schedule 2

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investment Income for the year ended December 31, 1989 (with 1988 figures for comparison)

	1989	1988
	(thousands of dollars)	
Fixed income longer term investments, Note 2(B)(i):		
Interest	$36,567	$32,356
Amortization of discounts and premiums	4,374	3,172
	40,941	35,528
Less: Allocation to provision for capital losses	965	826
	39,976	**34,702**
Non-fixed income investments, Note 2(B)(ii):		
Real estate equity:		
Interest and dividends	6,455	6,413
Adjustment due to changes in book value of investments	5,748	1,158
	12,203	**7,571**
Direct natural resources:		
Income from subsidiary	--	991
Dividends	1,319	1,096
Adjustments due to changes in book value of investments	(330)	(1,541)
	989	**546**
Venture capital equity:		
Income	674	646
Adjustments due to changes in book value of investments	414	(27)
	1,088	**619**
Canadian Commercial Bank:		
Proceeds from sale of assets, Note 5	**181**	**107**
Income from real estate acquired through mortgage defaults	**483**	**358**
Short term notes:		
Interest	**13,534**	**11,144**
Total investment income	68,454	55,047
Allocated to:		
Provision for Fund's share of employees' pension benefits	(78)	(66)
Money Purchase Account, net of administration fee	(9)	(3)
Net Investment Income, Exhibit B	**$68,367**	**$54,978**

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Notes to the Financial Statements for the year ended December 31, 1989

1. **Nature of the Organization:**

The Teachers' Retirement Allowances Fund Board was originally constituted under an Act passed at the 1925 session of the Legislature and is responsible for administering the current legislation, The Teachers' Pensions Act. The Act provides for the establishment and maintenance of a pension plan and fund to provide retirement securi y for all public school teachers in Manitoba.

The Teachers' Retirement Allowances Fund primarily consists of contributions made by teachers and provides funds to meet half the cost of retirement benefits.

2. **Significant Accounting Policies:**

The significant accounting policies are summarized below:

(A) The Fund follows the accrual basis of accounting in all cases where the amount of the accrual is material, specifically teacher contributions and investment income.

(B) The investment valuation and income measurement policies consist of:

(i) Fixed income investments:

Income on fixed income investments includes the net effect of amortization of discounts and premiums on securities held as well as amortization of book losses on bonds sold before maturity in order to acquire other securities for an increase in net yield. The premiums, discounts and book losses are amortized on an effective yield basis over the remaining term to maturity.

One quarter of 1% of the weighted average monthly book value during the year of fixed income longer term investments is allocated to a provision for capital losses and any actual losses realized are charged against the provision.

(ii) Non-fixed income investments:

Where valuation information is available, which is considered by management to be reliable, non-fixed income investments are adjusted to reflect the change in their values. One-half of any unrealized appreciation is taken into income in the year and the balance is credited to the provision for valuation declines. In any year that the valuations decrease, the whole of the decrease is charged to the provision. The portion of any valuation decline exceeding the provision balance is charged to income. When an investment is sold, the balance in the provision pertaining to the investment sold is transferred to income.

(a) Direct natural resource investments:

Direct natural resource investments are valued at cost less depletion plus or minus the Fund's share of retained earnings or deficit. Depletion and retained earnings/deficit values are updated annually based on the most recent available audited financial statements of the investee.

(b) Real estate acquired through mortgage defaults:

Properties taken over by the Fund as a result of mortgage defaults are recorded at cost. The Fund is in the process of disposing of these properties.

(C) Pension indexing adjustment reserve:

An allocation of teachers' contributions is made to the reserve in accordance with the Act. Interest is allocated to the reserve on the basis of the average rate earned by the Fund on all fixed income investments in the Fund.

Cost of living pension adjustment payments are calculated effective July 1 in each year and are based on the lesser of the increase in the Canadian Consumer Price Index for the preceding calendar year, or the amount, determined by an actuarial review, that could be paid without resulting in an unfunded liability in the reserve.

(D) Actuarial valuation:

The financial statements do not reflect the financial position of the Fund on an actuarial valuation basis. In accordance with the Act, an actuarial valuation and report is required every 3 years. The most recent actuarial report as at January 1, 1987, disclosed a surplus of $29,412,601 compared to a surplus of $37,677,206 at January 1, 1984.

(E) Provision for Fund's share of employees' pension benefits:

A portion of the Fund was allocated to provide for the Fund's accrued actuarial liability based on an actuarial report at December 31, 1980. The report provided a method of allocating funds to the Provision each year between triennial valuations to recognize the annual increase in this liability and for adjustments to be made for actual experience at each valuation. Transactions affecting the Provision in 1989 and 1988 were as follows:

	1989	1988
Balance, beginning of year.....	$680,070	$572,862
Required employer contributions charged to administrative expenses.....	36,537	41,329
Interest allocated from investment income.....	78,208	65,879
	794,815	680,070
Less: Fund's share of pension payments.....	21,059	--
Balance, end of year.....	**$773,756**	**$680,070**

(F) Computer and office equipment:

Computer equipment, office equipment and software acquisitions are capitalized and amortized on a straight line basis over five years.

3. **Investment in Subsidiary:**

The Teachers' Retirement Resources Investment Corporation of Manitoba Inc. (TRRICMI), a wholly owned subsidiary of the Fund, was incorporated on July 13, 1983, for the purpose of participating in the energy resource sector on behalf of the Fund.

On May 15, 1989, the shareholder approved the windup of TRRICMI. Activity since that date has consisted of liquidation of TRRICMI's assets and liabilities and legal procedures to dissolve TRRICMI. TRRICMI was legally dissolved on March 16, 1990.

4. **Money Purchase Account:**

The Teachers' Retirement Allowances Fund Board has established rules for the Money Purchase Account in accordance with Section 74 of The Teachers' Pensions Act. Under these rules, eligible individuals may transfer to the Money Purchase Account an amount from the Fund, the pension plan of a prior employer, or a locked-in registered retirement savings plan, to provide for an annuity or other settlement in the future. The Money Purchase Account is accounted for separately by the Board. The Board charges an annual administrative fee of 1% of the average value of the assets in the plan. The accumulated value of the eligible individual's account, upon election of an annuity under the Money Purchase Account, is transferred to the Teachers' Basic Benefit Reserve.

5. **Proceeds from Sale of Assets:**

The failure of the Canadian Commercial Bank in 1985 resulted in the write down of the Fund's investment in that bank to $1. Legal action taken on behalf of the Fund produced a partial return of capital of $180,595 in 1989 (1988 - $106,636). Further returns of capital are possible in 1991.

6. **Appraised values - real estate equity investments:**

During the year, the interpretation of the Fund's accounting policy for the years 1981 to 1986 was retroactively revised to conform with the current application of the policy. As a result, the appraised value of real estate equity investments has been increased by $3,089,644, the provision for valuation declines has been increased by $2,352,526 and the Teachers' Basic Benefit Reserve at January 1, 1988 has been increased by $737,118 from what had previously been reported.

7. **Comparative Figures:**

Comparative figures for the year ended December 31, 1988 have been restated to conform with this years presentation.